REPORT BY THE

AUDITOR GENERAL

OF CALIFORNIA

WEAKNESSES IN ACCOUNTING AND ADMINISTRATIVE CONTROLS OF STATE DEPARTMENTS

While conducting financial audits of 62 state departments, we noted widespread weaknesses in accounting and administrative controls, which relate to procedures for safeguarding assets and promoting efficient operations. These weaknesses expose the State to potential loss of resources in the areas of cash collections, amounts owed the State, expenditures, state property and equipment, and revenue.

F-069

REPORT OF THE

OFFICE OF THE AUDITOR GENERAL

TO THE

JOINT LEGISLATIVE AUDIT COMMITTEE

069

WEAKNESSES IN ACCOUNTING AND ADMINISTRATIVE CONTROLS OF STATE DEPARTMENTS

MAY 1981

California Legislature

Joint Legislative Audit Committee

925 L Street, Suite 750
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WALTER M. INGALLS
CHAIRMAN

May 18, 1981 069

The Honorable President pro Tempore of the Senate
The Honorable Speaker of the Assembly
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the Auditor General's report concerning improvements needed in state departments' systems of internal accounting and administrative controls.

Respectfully submitted,

WALTER M. INGALLS
Chairman, Joint Legislative
Audit Committee

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SUMMARY

As a part of financial audits we conducted of 62 state departments, we noted widespread weaknesses in internal accounting and administrative controls. These weaknesses expose the State to potential loss of resources in these areas: cash collections, amounts owed the State, expenditures, state property and equipment, revenue, and administrative controls.

More specifically, we found that state departments' procedures for depositing and recording cash collections prevent the State from maximizing interest earnings on its funds. In one instance, because a department did not promptly deposit collections averaging $3 million per quarter, the State lost yearly interest earnings totaling about $50,000.

Another problem causing the State to forego interest earnings relates to inadequate procedures for billing, recording, and collecting receivables--amounts owed to the State. As an example, one department delayed over a year in billing the Federal Government for health costs totaling approximately $5.75 million. Had this amount been collected and invested when due, the State could have earned nearly

$490,000 in interest income. And, in another case, $1.8 million owed the General Fund from special funds remained outstanding for eight months following the end of the fiscal year. Because of this interest-free loan to the special funds, the General Fund lost approximately $100,000 in interest earnings. Overall, state departments' inadequate procedures for handling cash collections and receivables prevented the State from realizing approximately $640,000 in interest earnings.

Further, we noted instances of questionable and inappropriate expenditures in the state departments we audited. Some of these expenditures were made to employees for travel expenses that were not documented; other current year expenditures were charged to prior year appropriations. For approximately one-half the departments reviewed, we found inadequate procedures for identifying and accounting for state-owned property and equipment. As an example, one department had not identified or assigned a value to equipment acquired from another department in July 1978. Two years later, the department still had not identified or recorded this equipment. Other widespread problems relate to collecting, recording, and accounting for state revenue. Finally, we noted problems in administrative controls, such as requesting authorized advances from the Federal Government and limiting employees' access to data processing areas.

We made recommendations to the responsible departments for correcting these weaknesses. Most of these were accepted. However, because of the widespread failure to enforce procedures designed to protect assets, we recommend that state departments annually report to the Legislature on the adequacy of their internal control systems.

INTRODUCTION

In response to a resolution of the Joint Legislative Audit Committee and in compliance with the federal Office of Revenue Sharing regulations, we have conducted a series of financial audits of state departments and funds. These audits were conducted under the authority vested in the Auditor General by Sections 10527 and 10528 of the Government Code.

While conducting these audits, we also noted weaknesses in accounting and administrative controls. Accounting controls relate directly to procedures for safeguarding assets and ensuring that financial records are reliable. Some of these controls include systems for authorizing and approving disbursements and organizational plans for separating accounting duties among employees. Administrative controls, however, include those methods or procedures that promote more efficient operations within departments. Unlike accounting controls, administrative controls do not directly relate to a department's financial statements.

Accounting and administrative control procedures applicable to departments are specifically identified in the State Administrative Manual. All departments are required to follow the manual unless specifically exempted by permission from the Department of Finance. During our audits, we communicated our findings, along with recommendations for correcting weaknesses in internal controls and improving operating procedures, to the management of each department and to the Department of Finance.

In performing our audits, we interviewed responsible personnel; tested the accuracy of financial transactions; reviewed applicable laws and regulations; and determined the propriety of transactions for timeliness, adequacy, and sufficiency.

AUDIT RESULTS

STATE DEPARTMENTS EXHIBIT WEAKNESSES IN ACCOUNTING AND ADMINISTRATIVE CONTROLS

Our examinations of 62 state departments disclosed widespread internal accounting and administrative weaknesses. These weaknesses could prevent the State from maximizing its resources. Specifically, these weaknesses are as follows:

- Cash collections are not properly handled;
- Procedures for recording and collecting receivables are inadequate;
- Expenditures are not adequately monitored;
- Property and equipment are not strictly accounted for;
- Procedures for collecting and recording revenue are weak;
- Administrative controls require strengthening.

The deficiencies reported to management in processing cash receipts, receivables, expenditures, accounts payable, property, and administrative weaknesses are summarized by department in Appendix A.

Congress is now considering legislation that would require all federal departments to review and report on the adequacy of their systems of internal control. This proposed legislation, which we have included as Appendix B, was in response to a General Accounting Office report containing findings that are similar to the weaknesses described on the following pages. To raise the level of support and interest in accounting controls within state agencies, the Legislature may wish to consider similar legislation.

Cash Collections Are Not Properly Handled

Because of a lack of adequate controls, state departments have exposed cash collections to loss and misuse. Overall, we noted cash control weaknesses in one-third of the departments audited. Specifically, several of the departments we audited did not promptly deposit all collections, issue and record receipts, or reconcile bank accounts. In addition, some departments did not adequately separate the duties of handling cash from those of accounting for cash. Thus, these departments violated collection provisions designed to reduce the potential of lost or misused funds and to maximize interest earnings to the State.

During our reviews, we noted one instance in which a substantial amount of collections remained undeposited. In this case, collections averaging $3 million per quarter were not deposited for two to three weeks. Because of this situation, the State lost interest earnings totaling approximately $50,000 annually.

Further, we found that some departments did not issue and record cash receipts. Employees responsible for collecting rent on state-owned property did not issue sequentially numbered receipt forms for their collections. This practice could allow employees to use cash receipts without detection.

We also identified cases where some departments did not promptly reconcile bank accounts. In one instance, a revolving fund checking account had not been reconciled for at least 18 months. Further examination revealed that a difference of $6,000 between the bank account balance and the book balance was not accounted for.

Additionally, our audits disclosed that several departments did not segregate the functions of handling and accounting of cash between two or more employees. Segregating these functions is a basic internal control principle designed

to safeguard assets. At one department, the person who authorized cash disbursements also was given access to both the check-signing machine and blank check stock. Thus, this employee could authorize fraudulent payments and prepare and sign checks without being detected.

Procedures for Recording
and Collecting Receivables
<u>Are Inadequate</u>

Several state departments have inadequate procedures for recording and collecting amounts owed the State. As a result, these receivables are not being collected at all or are being collected long after they are due. This, in turn, causes the State to lose interest income on monies that have not been collected. We noted that several departments did not promptly prepare the billings for goods or services or always record receivables in the accounting records. In addition, some departments failed to promptly collect receivables as they became due. Twenty of the 62 departments audited had weaknesses in their systems for recording and collecting receivables.

We noted one instance in which a substantial amount of receivables remained unbilled for over a year. In this case, the State had not billed the Federal Government for its share of costs for certain mental health services. These costs

amounted to approximately $5.75 million. As of June 30, 1980, these receivables, due in 1979, were still unbilled. Had this amount been collected and invested during the year it was due, the State could have earned approximately $490,000 in interest income.

We also found evidence that some departments had not recorded receivables in their accounting records. For example, one department did not maintain a general ledger account for defaulted student loans. Because of this error, the defaulted loans may not have been properly resolved. Unless these receivables are recorded, financial statements based on these records will be inaccurate.

Further, we found many instances of untimely collection procedures. One department, for instance, did not collect employees' salary and travel advances totaling about $193,000. These advances were outstanding from six months to a year or longer. In another situation, amounts owed to the General Fund from various special funds totaled $1.8 million. Because this amount remained outstanding for eight months after the end of the fiscal year, the special funds were, in effect, provided the equivalent of interest-free loans at the expense of the General Fund. In this instance, the General Fund lost approximately $100,000 in interest earnings.

Expenditures Are Not
Adequately Monitored

Aside from weaknesses in collections and receivables, we found that many departments did not adequately monitor expenditures. In 39 of the 62 departments audited, we found examples of questionable or inappropriate expenditures. Some of these included cases where unsubstantiated payments were made to employees or expenditures were charged to the wrong appropriations. Also, several departments did not separate the duties of authorizing payments from those of making payments.

To further illustrate, one department paid over $4,400 in travel and per diem expenses to certain employees on travel status during weekends. Despite state regulations requiring verification, no documentation exists to substantiate that state work was performed or that approval was obtained from the appropriate supervisor. Thus, this department cannot assure that these travel reimbursements are appropriate.

Another department substantially increased its spending authority for the current year by charging prior year appropriations for current year costs. Specifically, the department accounted for $217,000 in goods ordered and received in one year against the appropriation of a prior fiscal year.

This violation could allow state departments to continually augment their amounts for expenditure instead of operating within their budgets.

In addition, several departments did not separate the duties of authorizing payments from those of distributing or making payments. In one large department with an annual payroll of approximately $294 million, employees who certify payroll attendance also process other payroll documents and receive and distribute salary warrants. This assignment of duties could allow these employees to authorize a fictitious payroll transaction and then direct the payment for personal use.

Property and Equipment Are Not Strictly Accounted For

Approximately one-half of the departments we audited exhibited problems in accounting for property and equipment. For instance, we noted that some departments had not identified state-owned property or accounted for its cost in financial statements. In other cases, departments did not reconcile property records with equipment, a situation which could lead to loss of equipment items.

Many departments did not identify all state-owned property and did not include the costs of such property in their financial statements. For example, one department had not identified or assigned a value to equipment acquired from another department in July 1978. Two years later, the department still had not identified or recorded this equipment.

Another department did not adequately maintain a record of purchase and issuance of materials and supplies for an inventory having a value of $1.4 million. Instead, this department adjusted its accounting records to agree with a physical count of materials and supplies conducted semi-annually. Because of this practice, adjustments in one fiscal year resulted in an increase of $141,000 and a decrease of $49,000. Also, this practice made it impossible to determine any loss or misappropriation of materials and supplies.

Procedures for Collecting and Recording Revenue Are Weak

Similarly, we noted that state departments' procedures for collecting, recording, and accounting for revenue owed the State are weak. In some cases, departments have not reconciled sales of license fees with cash receipt

records or voided tickets with refunds made. Additionally, departments have issued publications prior to receiving payment and have not monitored the collection of state penalty monies.

One department reported license fees of approximately $9.5 million but did not reconcile the license records with receipts and deposit records. Accordingly, there is no assurance that all revenues were actually recorded and deposited. And at one of the State's historical monuments, cashiers are not required to retain voided tickets in support of refunds issued. This attraction often makes daily refunds of up to $60. So that appropriate state officials may detect loss or theft of collections, voided tickets should be retained and reconciled to cash receipts issued.

In another case, a department sold approximately 3,000 publications without advance payment. Subsequently, that department wrote off as uncollectible approximately 1,000 invoices amounting to $8,200. Lastly, although local courts should remit to the State revenue due from various penalty assessments the State has no monitoring system to assure that it receives all of these monies.

Administrative Controls
Require Strengthening

In addition to weaknesses in accounting controls, we also found problems with administrative controls. As noted earlier, administrative controls refer to all methods and procedures that promote operational efficiency and adherence to managerial policies. Usually, these controls only indirectly relate to a department's financial records. In this area, we noted problems related to requesting authorized advances from the Federal Government, procuring state property from employees leaving state service, and allowing access to restricted data processing areas. We discovered administrative control weaknesses in approximately one-fourth of the departments audited.

One department failed to request authorized advances from the Federal Government. Under a $2 million federal grant contract, the state department did not request advance funds it was entitled to receive. Consequently, the department was forced to use state funds instead of available federal funds.

We also found that some departments did not require employees leaving state service to return state assets. Because of inadequate check-out procedures at many departments, some terminated employees failed to return travel and salary

advances, state credit cards, keys, and equipment. As a result, the State may not collect the advances and equipment. Also, the credit cards and keys could be used without authorization.

Computer operators and programmers should be denied access to application programs, data files, and operating instruction manuals which are not required for current system operation. However, at one department, we found that the personnel assigned to the data processing division also had access to the application programming unit. This unit contains restrictive and sensitive data which should be available only to specific authorized personnel. As a result of this weak security measure, data files and computer programs could be altered or destroyed.

CONCLUSION

While auditing 62 state departments, we noted widespread weaknesses in internal controls and administrative procedures. For the most part, these weaknesses resulted because state departments did not follow procedures prescribed in the State Administrative Manual. The addition of a section to the manual requiring departments to review and report on the adequacy of their internal controls would

increase management's interest and support. Similarly, state legislation requiring departments to report to the Legislature annually on their internal control practices would encourage departmental management to correct the weaknesses we noted.

RECOMMENDATION

We recommend that the Department of Finance include in the State Administrative Manual a requirement for state departments to annually review and report on the adequacy of their internal control systems.

MATTERS FOR LEGISLATIVE CONSIDERATION

We recommend that the Legislature consider amending the Government Code to require state departments to review and report on the adequacy of their systems of internal control.

Respectfully submitted,

Thomas W. Hayes

THOMAS W. HAYES
Auditor General

Date: May 15, 1981

Staff: Curt I. Davis, CPA, Audit Manager
Merrill E. Tompkins, CPA
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Enrique G. Farias, CPA

State of California

Memorandum

Date : May 15, 1981

To : Thomas W. Hayes
Auditor General

Telephone: ATSS ( )
( )

From : **Department of Finance**

Subject: Draft Report Entitled "Weaknesses in Accounting and Administrative Controls of State Departments"

The following is our response to your report which was transmitted to us by a letter dated May 11, 1981.

The report is a compilation of findings by your staff in the audits performed of 62 agencies to conform with the provisions of the Federal Revenue Sharing Act.

The Administration has been concerned with weaknesses we have also found in accounting and administrative controls and has initiated a number of actions to remedy this situation. We outlined these actions in my letter dated March 23, 1981 to the Honorable Walter M. Ingalls which is attached.

To illustrate the extent of our commitments in carrying out internal control reviews, I have also attached a listing of recent engagements by my Financial and Performance Accountability Unit. These reviews have resulted in recommendations which, when implemented, will begin to remedy the weaknesses in accounting systems we both know exist.

In regards to the recommendation "that the Department of Finance include in the State Administrative Manual a requirement for State departments to annually review and report on the adequacy of their internal control systems," if the Legislature decides this should be done, we will include such a statement. However, we believe the positive actions and commitments we have made as outlined in the attachment is the most effective way to bring about the needed changes.

We appreciate the opportunity to respond to this draft report. If you have any questions, please call Richard Cutting at 322-2985.

MARY ANN GRAVES
Director of Finance

Attachments

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DEPARTMENT OF FINANCE
SACRAMENTO

March 23, 1981

Honorable Walter M. Ingalls, Chairman
Joint Legislative Audit Committee
State Capitol, Room 6024
Sacramento, CA 95814

CALIFORNIA STATE'S ACCOUNTING AND AUDITING SYSTEMS

As stated in your letter of January 29, 1981, the State Controller and I are both concerned along with members of your committee about deficiencies in the State's accounting and auditing systems and we are placing into effect certain actions to remedy this situation.

Accounting

On January 21, 1981, the State Controller and I sent a joint request to the Executive Officer of the State Personnel Board (SPB) expressing our concerns about the deterioration in performance of accounting personnel within State Government over the past few years. We requested a joint study of accounting classifications by the SPB, the State Controller's Office (SCO), and the Department of Finance (DOF) with the objective of achieving needed changes in the accounting classes.

We have now formed a study group comprised of representatives from those three agencies and several departments to fulfill that objective and to identify other accounting problems and solutions. We will report to the Legislature (as recommended by the Legislative Analyst in his 1981-82 Budget Analysis) by October 1, 1981.

Of special concern to us at this time is the implementation of the California Fiscal Information System (CFIS) on July 1, 1981. This system was sought by and has support of both the Legislative and Executive Branches. Underlying CFIS is the California State Accounting and Reporting System--popularly known by the acronym CALSTARS--which is an automated governmental and program cost accounting system developed for all State departments except those few which already have computerized accounting systems compatible with CFIS. A higher level of professionally qualified accountants will be required to operate this system because of its highly automated features and complex nature, as well as the cost accounting requirements of AB 3322 (Chapter 1284, Statutes of 1978).

Other accomplishments include:

- The Fiscal Systems and Consulting Unit (FSCU) of the DOF and the SCO for the past three years have conducted seminars on preparing year-end financial statements for accounting personnel of all State departments.

- FSCU conceived the State accounting course and worked with the SPB's Personnel Development Division in developing it. Today, that course as well as one on the year-end closing process is regularly scheduled for presentation to departmental personnel.

- FSCU also recently made a survey of knowledgeable State fiscal employees to help identify contributing factors to problems existing in departmental accounting offices.

- Responding with our limited staff resources to requests for assistance from operating departments, we learn of departmental accounting problems. Frequently, however, we only learn of difficulties with a department's accounting system at year-end or when it has reached a crisis stage. Obviously, we cannot assist all departments. For those we do assist, it takes a great deal of time and effort to process the accounting data that has backlogged, to make the necessary reconciliations with the SCO's records, and to install or correct accounting systems to ensure that they have the necessary checks and balances for good fiscal accountability.

Accounting and Reporting Systems

In recognition of the need for a substantial upgrading of the accounting systems of the State and as part of the CFIS project, the Department of Finance has undertaken the development and implementation of CALSTARS. This new system will eventually be implemented in 150 departments and institutions.

CFIS staff is working with one of the "Big 8" international CPA firms, Peat, Marwick, Mitchell & Co., in developing this system and implementing the first 22 departments and institutions by July 1, 1981. CALSTARS represents a high technology data processing innovation in governmental financial systems due to its design concepts, including distributed data processing. Moreover, the magnitude of this project, in terms of the number of people to be directly affected by CALSTARS, is unparalleled.

Eight of the largest State departments are modifying their accounting systems in order to meet the CFIS reporting requirements. These departments were originally judged to have automated program cost accounting systems that could be modified to meet the CFIS requirements, as well as meeting their own departmental needs. Since that time, several of the departments have been considering or acquiring new systems. The Department of Education is now one of the first group of departments that will implement CALSTARS as of July 1, 1981.

The State Controller is also developing and implementing a new fiscal system as part of the CFIS project. This new system will substantially improve the Controller's accounting capabilities, as well as meeting other fiscal needs of that office. It will be operated on a parallel basis beginning July 1, 1981.

As part of this effort to provide timely, uniform and readily accessible fiscal information for decision-makers in both the Legislative and Executive Branches, the CFIS data base has been implemented. It is a bridge between the detailed departmental accounting systems and the users of high-level fiscal information. CFIS is a comprehensive, on-line computer data base system. It will provide the user timely and uniform fiscal data, reported in both tabular and graphic formats, for revenues and expenditures by line item, program, governmental unit, and fund source. CFIS will provide the capability for:

- Budget formulation
- Budget monitoring
- Budget bill and legislative bill tracking
- Modeling and forecasting of revenues and expenditures
- Program performance and workload monitoring
- Comparison of activities that cross departmental lines

CFIS currently includes some planned and actual expenditures and revenues for the "Big 8" departments; historical fiscal data; Federal fund receipts and disbursements; information on bills before the Legislature, including the Governor's Budget and Budget Bill; U.S. economic data; and performance measures for certain departments. Other planned CFIS data base applications include California economic data and the Department of Finance's U.S. and California economic models and revenue estimation equations. Eventually, the CFIS data base will include monthly planned and actual revenues, expenditures and performance measures for all departments, in keeping with the CALSTARS implementation schedule.

The development of CFIS and related changes in the State's budgeting and accounting systems are planned over a seven to ten year period, dependent upon funding, with specific developments to be accomplished each year. With the exception of problems encountered in transmitting timely monthly data by the "Big 8" departments, the CFIS project is on schedule.

Audits

We have already made progress in the area of more comprehensive State audits and are working on joint plans with the Auditor General and the State Controller to better define our respective roles. The Financial and Performance Accountability (FPA) unit of Finance has been redirected to perform expanded internal control reviews of State departments and institutions. The reviews to date have revealed areas of weakness which, when corrected, will result in more timely and accurate financial reports. Our audit plan has established an audit pattern of engagements so that major State departments and institutions will be reviewed in a two-year period.

A joint effort is underway between the major State audit entities, the Department of Finance, the Auditor General and the State Controller, to address the changing environment due to newly issued directives by the Federal offices of GAO and OMB. This includes changes in internal and external audit engagements and methods for California to comply with the new OMB Circular A-102, Attachment P relating to "single audits." A joint report to the Administration and the Legislature will be issued when existing problems have been resolved.

The FPA unit is also engaged in a major activity to identify and upgrade the work of State audit units. This includes presenting on an ongoing basis, a 40 hour course on the State Administrative Manual which is given on request to various State Department Internal Audit staffs. In January 1981, a directory listing all State audit entities was published. We are currently developing for publication a State Audit Standards and Procedures Manual which will incorporate the Federal publications and applicable State guides. This manual will be ready for release during 1981-82. The final activity in this important area will be the development and implementation of a "peer review" or "quality review" procedure which will also identify training needs. Upon completion of these activities, along with the coordination and cooperative efforts under way between the major audit agencies, the California audit function should be satisfactorily in place.

The FPA unit for the balance of this fiscal year is currently involved in the following major engagements:

- A review of the Accounting and Fiscal Control Systems of the State Department of Education and an audit of its year-end statement as of June 30, 1980.
- A follow-up review and audit of the Health Care Deposit Fund administered by the Department of Health Care Services.
- An Internal Control and Compliance review of the various institutions administered by the departments of Developmental Services, Corrections and Youth Authority.

I have instructed FPA, in cooperation with the State Controller, to observe the year-end closing activities of the major State departments to insure that the year-end statements are completed in a timely manner after June 30, 1981. This fiscal information is essential if we are to have meaningful fiscal data in this crucial year for decision-making purposes.

As requested, we will continue to provide progress reports to your committee on these various activities as major milestones are reached and implementations accomplished.

Mary Ann Graves

MARY ANN GRAVES
Director of Finance

cc: Honorable Alfred E. Alquist, Member of the Joint Legislative Audit Committee
Honorable Ruben S. Ayalo, Member of the Joint Legislative Audit Committee
Honorable Robert G. Beverly, Member of the Joint Legislative Audit Committee
Honorable Paul Carpenter, Member of the Joint Legislative Audit Committee
Honorable John Doolittle, Member of the Joint Legislative Audit Committee
Honorable Ken Maddy, Member of the Joint Legislative Audit Committee
Honorable Robert Pressley, Member of the Joint Legislative Audit Committee
Honorable Leroy F. Greene, Member of the Joint Legislative Audit Committee
Honorable Charles Imbrecht, Member of the Joint Legislative Audit Committee
Honorable Ernest Konnyu, Member of the Joint Legislative Audit Committee
Honorable Richard Robinson, Member of the Joint Legislative Audit Committee
Honorable Marilyn Ryan, Member of the Joint Legislative Audit Committee
Honorable John Vasconcellos, Member of the Joint Legislative Audit Committee
Honorable Kenneth Cory, State Controller
Mr. Richard Rominger, Director, Department of Food and Agriculture
Mr. Donald Vial, Director, Department of Industrial Relations
Ms. Mary Nichols, Secretary, Environmental Affairs
Ms. Alice Lytle, Secretary, State and Consumer Services Agency
Ms. Lynn Schenk, Secretary, Business, Transportation and Housing Agency
Mr. Huey Johnson, Secretary, Resources Agency
Mr. Howard Way, Secretary, Youth and Adult Correctional Agency
Mr. Mario Obledo, Secretary, Health and Welfare Agency
Mr. Gray Davis, Secretary and Chief of Staff, Governor's Office

May 15, 1981

Department of Finance
Financial and Performance Accountability
Internal Control Reviews

Assignment	Start Date	Completion Date	Report Status
California Department of Corrections, DVI, Tracy	8/22/80		Final Report- 1/29/81
California Department of Corrections, Folsom	8/22/80		Final Report- 1/29/81
California Department of Corrections, CIM, Chino	3/2/81	6/26/81	
California Department of Corrections, CMF, Vacaville	11/12/81	6/5/81	
California Department of Corrections, CIW, Frontera	1/2/81	6/5/81	
California Department of Corrections, CRC, Corona	2/17/81	5/29/81	
California Youth Authority, No. Reception Center/Clinic	2/2/81	6/26/81	
California Youth Authority, Youth Conservation Camps	2/2/81	6/26/81	
California Youth Authority, Fred C. Nelles School	1/2/81	5/15/81	
California Youth Authority, No. California Youth Center, Stockton	8/22/80	6/26/81	
California Youth Authority, So. California Youth Center	3/2/81	5/29/81	
Employment Development Department, Review of Accounting Function	3/26/81	6/8/81	
Department of Developmental Services, Agnews State Hospital	11/5/80	6/5/81	

Assignment	Start Date	Completion Date	Report Status
Department of Developmental Services, Camarillo State Hospital	11/5/80	Preliminary	
Department of Developmental Services, Napa State Hospital	11/5/80	5/26/81	
Department of Developmental Services, Patton State Hospital	11/5/80	Preliminary	
Department of Developmental Services, Stockton State Hospital	11/5/80	6/26/81	
Department of Developmental Services, Fairview State Hospital	11/5/80		Final Report- 3/31/81
Department of Developmental Services, Frank D. Lanterman State Hospital	11/5/80	Preliminary	
Department of Developmental Services, Porterville State Hospital	11/5/80	Preliminary	
Department of Developmental Services, Sonoma State Hospital	11/5/80	5/26/81	
Department of Mental Health, Atascadero State Hospital	11/5/80	Preliminary	
Department of Mental Health, Metropolitan State Hospital	11/5/80	Preliminary	
Department of Water Resources, Review of Accounting Function	1/30/81	6/12/81	
Department of Motor Vehicles, Review of Accounting Function	12/4/80	5/22/81	
Department of Social Services, Review of Accounting Function	9/17/80	5/22/81	
Department of Aging	7/21/80		Final Report- 12/31/80
Department of Health Services	8/13/80		Letter- 8/25/81

DISTRIBUTION OF WEAKNESSES IN ACCOUNTING AND ADMINISTRATIVE CONTROLS BY DEPARTMENT
AUDIT REPORTS ISSUED DURING CALENDAR YEAR 1980

Department	Cash: Weaknesses in Depositing, Recording, or Reconciling	Cash: Inadequate Separation of Duties	Accounts Receivables: Weaknesses In Recording	Accounts Receivables: Inadequate Billing and Collection Efforts	Expenditures: Inadequate Procedures	Expenditures: Improper or Incorrect Recording	Property: Inadequate Controls and Records	Revenues: Inadequate Accounting Procedures	Administration: Weaknesses in Management	Administration: Weaknesses in Procedures
Agricultural Labor Relations Board						XX	XX			
Alcohol and Drug Program, Department of		XX	XX	XX			XX			
Arts Council, California					XX	XX	XX			
Advisory Commission on Youth, California										
Advisory Council on Vocational Education, California					XX					
California Community Colleges, Board of Governor's of the	XX	XX								
California Fiscal Information System										
California Fiscal Information System Implementation Committee										
Californias, Commission of the	XX				XX		XX			
Chiropractic Examiners, Board of	XX				XX					
Conservation, Department of	XX	XX	XX	XX			XX			XX
Consumer Affairs, Department of	XX			XX	XX	XX	XX		XX	
Contracted Fiscal Services				XX		XX			XX	
Controller's Office, State				XX			XX			
Corrections, Department of	XX				XX	XX	XX			
Developmental Services, Department of			XX	XX	XX	XX	XX			
Economic and Business Development, Department of	XX	XX	XX				XX			
Economic Development, Commission for							XX			
Education, Department of	XX	XX		XX	XX	XX	XX		XX	XX
Employment Development Department										
Energy Resources Conservation and Development Commission	XX					XX	XX	XX		
Equalization, State Board of									XX	
Finance, Department of					XX	XX	XX			XX
Forestry, Department of	XX		XX		XX	XX	XX	XX		
General Services, Department of	XX	XX			XX	XX	XX			
Governor's Advisory Committee on Child Care					XX	XX				
Health and Welfare Agency		XX	XX			XX	XX			
Health and Welfare Agency Data Center							XX			
Health Facilities Commission Fund, California		XX	XX				XX			
Health Services, Department of				XX		XX	XX		XX	XX

Intergovernmental Board on Electronic Data Processing										
Intergovernmental Personnel Act Advisory Council										
Law Revision Commission, California					XX					
Legislative Counsel							XX	XX		
Lieutenant Governor, Office of the					XX					
Mental Health, State Department of				XX		XX	XX	XX	XX	
Motor Vehicles, Department of								XX		
Native American Heritage Commission					XX					
Organization and Economy, Commission on California Government					XX					
Osteopathic Examiners, Board of	XX				XX					
Parks and Recreation, Department of	XX		XX		XX		XX	XX		XX
Peace Officers Standards and Training, Commission on	XX	XX				XX	XX	XX		
Planning and Research, Office of			XX		XX					
Postsecondary Education Commission, California					XX	XX				
Public Broadcasting Commission, California					XX					XX
Public Employees' Relations Board	XX					XX				
Public Utilities Commission										
Real Estate, Department of			XX	XX			XX	XX	XX	
Rural Youth Employment Program					XX					
San Francisco Bay Conservation and Development Commission		XX	XX				XX			
Santa Monica Mountains Comprehensive Planning Commission					XX					
Social Services, Department of		XX				XX	XX		XX	
Southwest Border Regional Commission							XX			
Statewide Health Planning and Development, Office of	XX	XX	XX	XX		XX	XX			
Status of Women, Commission on the	XX	XX			XX					XX
Stephen P. Teale Consolidated Data Center					XX	XX		XX	XX	
Student Aid Commission			XX			XX	XX			
Teachers' Preparation and Licensing, Commission for					XX	XX	XX			
Transportation Commission, California					XX					
Veterans' Affairs, Department of				XX	XX	XX		XX	XX	
Water Resources, Department of							XX			
Youth Authority, Department of							XX		XX	
NUMBER OF DEPARTMENTS WHERE WEAKNESSES WERE NOTED	22		20		39		33	10	16	

Note: Weaknesses noted may have multiple occurrences within each department; however, the weakness is noted only once.

PROPOSED FEDERAL LEGISLATION REQUIRING DEPARTMENTS TO REVIEW INTERNAL CONTROLS

S. 3026

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.—

This Act may be cited as the Financial Integrity Act of 1980.

SEC. 2. (a) FINDINGS.—

The Congress hereby finds that

(1) Fraud, waste, and mismanagement have caused a serious crisis of confidence in Federal Government programs and agencies.

(2) Fraud and errors in Federal programs are more likely to occur from a lack of effective systems of internal accounting and administrative control in the Federal agencies.

(3) Effective systems of internal accounting and administrative control provide the basic foundation upon which a structure of public accountability must be built.

(4) Effective systems of internal accounting and administrative control are necessary to provide assurance that Federal assets and funds are adequately safeguarded as well as to produce reliable financial information for the agency.

(5) Systems of internal accounting and administrative control are necessarily dynamic and must be continuously evaluated and where necessary improved.

(6) Reports regarding the adequacy of the systems of internal accounting and administrative control of each federal agency are necessary to enable the executive branch, the Congress, and the public to evaluate the agency's performance of its public responsibilities and accountablility.

(b) POLICY.—

It is hereby declared to be the policy of the United States that

(1) Each Federal agency must maintain effective systems of internal accounting and administrative control as an integral part of its management practices.

(2) The systems of internal accounting and administrative control of each federal agency shall be evaluated on an ongoing basis and when detected, weaknesses must be promptly corrected.

(3) All levels of management of the federal agencies must involve themselves in assessing and strengthening the systems of internal accounting and administrative control to minimize fraud, errors, abuse, and waste of government funds.

SEC. 3. As used in this Act—

(a) The term "President" means the President of the United States.

(b) The term "Comptroller General" means the Comptroller General of the United States.

(c) The term "Director" means the Director of the Office of Management and Budget.

SEC. 4. Section 113 of the Accounting and auditing Act of 1950, as amended (31 U.S.C. § 66a), is amended by adding at the end thereof the following new subsection:

(d) (1) To ensure that the requirements of subsection (a) (3) of this section are fully complied with, the head of each executive agency which the Director determines to be covered by this subsection, shall prepare a report stating an opinion on the adequacy of the agency's systems of internal accounting and administrative control by December 31, 1981, and by December 31 following the end of each fiscal year thereafter.

(2) The reports shall be signed by the head of each executive agency and addressed to the President. Such reports shall also be made available to Congress and the public.

(3) By December 31, 1980, the Comptroller General in consultation with the Director shall establish a system of reporting and a general framework to guide the agencies in performing evaluations on their systems of internal accounting and administrative control. The Comptroller General, in consultation with the Director, may modify the format for the report or the framework for conducting the evaluations from time to time as deemed necessary.

(4) Internal accounting and administrative controls are to be defined by the Comptroller General, and shall provide reasonable assurances that:

(i) All obligations and costs were in compliance with applicable law.

(ii) All funds, property, and other assets were safeguarded against waste, loss, unauthorized use or misappropriation.

(iii) All revenues and expenditures applicable to agency operations were properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

Any inadequacy or material weakness in an agency's systems of internal accounting and administrative control which prevents the head of the agency from stating that the agency's systems of internal accounting and administrative control provided reasonable assurances that each of the objectives specified above were achieved shall be identified and the plans and schedule for correcting any such inadequacy described in detail.

(5) (a) The Inspector General of an executive agency or, if no Inspector General exists for an agency, the head of the internal audit staff, shall receive and investigate any allegation that an employee of the agency provided false or misleading information in connection with the evaluation of the agency's systems of internal accounting and administrative control or in con-

nection with the preparation of the annual report on the systems of internal accounting and administrative control.

(b) If, in connection with any investigation under subparagraph (a), the Inspector General or the head of the internal audit staff, as appropriate, determines that there is reasonable cause to believe that false or misleading information was provided, he shall report that determination to the head of the agency.

(c) The head of the agency shall review any matter referred to him under subparagraph (b) and shall take action under Chapter 75 of Title 5, United States Code, or such other disciplinary or corrective action as he deems necessary.

H.R. 8063

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. This Act may be cited as the "Federal Managers' Accountability Act of 1980".

SEC. 2. Section 113 of the Accounting and Auditing Act of 1960, as amended (31 U.S.C. 66a), is amended by adding at the end thereof the following new subsection:

"(d)(1) To ensure that the requirements of subsection (a)(3) of this section are fully complied with, the head of each executive agency which the Director of the Office of Management and Budget determines to be covered by this subsection shall prepare a report stating an opinion on the adequacy of the agency's systems of internal accounting and administrative control by December 31, 1981, and by December 31 of the succeeding year.

"(2) The reports shall be signed by the head of each executive agency and addressed to the President. Such reports shall also be made available to Congress and the public.

"(3) By December 31, 1980, the Comptroller General, in consultation with the Director of the Office of Management and Budget, shall establish a system of reporting and guidelines for the agencies in performing evaluations on their systems of internal accounting and administrative control. The Comptroller General, in consultation with the Director, may modify the system for reporting or the guidelines for conducting the evaluations from time to time as deemed necessary.

"(4) Internal accounting and administrative controls shall be established in accordance with standards prescribed by the Comptroller General, and shall provide reasonable assurances that—

"(i) all obligations and costs were in compliance with applicable law;

"(ii) all funds, property, and other assets were safeguarded against waste, loss, unauthorized use, or misappropriation; and

"(iii) all revenues and expenditures applicable to agency operations were properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

Any inadequacy or material weaknesses in an agency's systems of internal accounting and administrative control which prevents the head of the agency from stating that the agency's systems of internal accounting and administrative control provided reasonable assurances that each of the objectives specified above were achieved shall be identified and the plans and schedule for correcting any such inadequacy described in detail.

"(5)(A) The Inspector General of an executive agency or, if no Inspector General exists for an agency, the head of the internal audit staff, shall receive and investigate any allegation that an employee of the agency provided false or misleading information in connection with the evaluation of the agency's systems of internal accounting and administrative control or in connection with the preparation of the annual report on the systems of internal accounting and administrative control.

"(B) If, in connection with any investigation under subparagraph (A), the Inspector General or the head of the internal audit staff, as appropriate, determines that there is reasonable cause to believe that false or misleading information was provided, he shall report that determination to the head of the agency.

"(C) The head of the agency shall review any matter referred to him under subparagraph (B) and shall take action under chapter 75 of title 5, United States Code, or such other disciplinary or corrective action as he deems necessary.".

SEC. 3. Section 201 of the Budget and Accounting Act, 1921 (31 U.S.C. 11), is amended by adding at the end thereof the following new subsection:

"(k) The President shall include in the supporting detail accompanying each budget submitted on or after January 1, 1981, a statement with respect to each department and establishment of—

"(1) the original amount of appropriations requested by the Office of the Inspector General of such department or establishment, if any;

"(2) the changes made in such request by the head of such department or establishment prior to the submission of such request to the Director of the Office of Management and Budget;

"(3) any further changes made in such request prior to the submission of such Budget to the Congress.".

SEC. 4. Section 215 of the Budget and Accounting Act, 1921 (31 U.S.C. 23), is amended by inserting immediately after the first sentence thereof the following new sentence: "The head of each department and establishment shall include with any such requests for appropriations a statement certifying that the request is based on an accounting system that has been approved by the Comptroller General pursuant to section 112 of the Budget and Accounting Act of 1950."

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
Secretary of State
State Controller
State Treasurer
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
California State Department Heads
Capitol Press Corps